March 28, 2024

Shriram Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by vehicle and construction equipment loan receivables issued by Sansar Vehicle Finance Trust Dec 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Vehicle Finance Trust Dec 2022	PTC Series A	2,621.02	Provisional [ICRA]AAA(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs), i.e. PTC Series A, issued by Sansar Vehicle Finance Trust Dec 2022 under a securitisation transaction originated by Shriram Finance Limited {SFL/originator; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of vehicle and construction equipment (CE) loan receivables originated by SFL with an aggregate principal outstanding of Rs. 2,981.41 crore (pool receivables of Rs. 3,725.16 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, SFL's track record in the vehicle loan business and the credit enhancement available in the form of (i) a cash collateral (CC) of 4.40% of the initial pool principal, (ii) excess interest spread (EIS), and (iii) subordination (equity tranche) of 12.10% of the initial pool principal, as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Proven track record in pre-owned commercial vehicle (CV) financing segment along with a well-established franchise
- Availability of credit enhancement in the form of equity tranche, EIS and CC in the transaction

Credit challenges

- Relative uncertainty regarding the follow-on pools, given the replenishment structure in the transaction; however, this will be controlled through the stringent eligibility criteria for the follow-on pools
- Performance of the current pool and follow-on pools would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The loan pool receivables will be assigned at par to the PTC investors. As per the transaction structure, the cash flow schedule will comprise the promised quarterly interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date (78^{th} month from the PTC issuance date or September 18, 2030). During the tenure of PTC Series A, the collections from the pool will be utilised to make the scheduled quarterly interest payments and the principal repayment on an expected basis as per the schedule mentioned in the exhibit below. The trustee in the transaction will also open reserve accounts, viz. Interest Service Reserve Account (ISRA) and Mandatory Cash Sweep

Service Reserve Account (MCSSRA), in which the trustee will deposit the next interest and principal due from the collections as per the waterfall mechanism.

Expected principal repayment schedule of PTCs

Months Post PTC Issuance	12	18	24	30	36.5	42	48	54	60
Principal repayment (%)	6.0%	6.0%	6.0%	6.0%	12.5%	12.5%	12.5%	12.5%	26.0%
Cumulative principal repayment (%)	6.0%	12.0%	18.0%	24.0%	36.5%	49.0%	61.5%	74.0%	100.0%

The transaction will have a replenishment period of up to 54 months if no PTC trigger event occurs. During the replenishment period, the excess collections after meeting the deposits in the ISRA and MCSSRA along with the investor payouts would be used to purchase the additional pool of loan receivables that meet the predefined selection criteria. A minimum asset coverage ratio (ACR) of 1.1375x (gradually building up to 1.5x) is required to be maintained during the replenishment period.

The ACR will be calculated on each distribution date (PTC payout date), starting from the first distribution date, as (A)/(B), where:

(A) is the total outstanding principal amount of the identified receivables plus the balance amount in the MCSSRA and ISRA plus any other cash balance available in the Collection and Payout Account

(B) is the outstanding principal of the senior tranche PTCs plus the unpaid but accrued yield on the senior PTCs

For the calculation of the ACR:

(i) only the principal amount of the receivable is taken into consideration;

(ii) if any receivable is overdue for more than 60 days or has been restructured or rescheduled before as on the testing date, the principal amount of the receivable will be excluded from the calculation;

(iii) the principal amount scheduled for payment beyond the last mandatory cash sweep payment date shall be excluded from the calculation.

The asset cover test will be carried out on a monthly basis, starting from the immediately succeeding month of the date of allotment of the PTCs.

The transaction also features various trigger events. Upon the occurrence of a trigger event, the replenishment period will end and the trustee, if directed by the majority of the investors, may find one or more purchaser for the receivables. The trustee will also be entitled to terminate the servicer agreement with SFL and appoint a replacement servicer. The servicer shall be entitled to deposit the collections from the underlying pool on a daily basis. The amortisation of the PTCs would, however, be restricted to 25% during the first three years, in line with the Voluntary Retention Route (VRR) scheme, and excess collections will be maintained in a bank account.

The first line of support for PTC Series A in the transaction is in the form of subordination of 12.10% of the initial pool principal, which will be in the form of an equity tranche. The originator's claim on the EIS in the transaction is subordinated to the PTC payouts. Thus, the EIS acts as a source of credit enhancement in the transaction. The initial pool and the replenishment pool(s) will have a weighted average rate of return greater than 16% and less than 22% while the PTC yield is fixed at 9.30%, resulting in a healthy spread. Any residual EIS, after meeting the shortfalls in investor payouts and the top-up of the CC (if required), will be utilised to replenish the pool for a period of up to 54 months from the date of allotment of the PTCs. However, if a trigger event occurs, the pool replenishment will get terminated and all cash flows will be used to meet the statutory dues, operating expenses and the Senior PTC dues. After the replenishment of the pool and the establishment of the required ACR, the residual amount as well as any outstanding receivables will be used to make the payout to the senior tranche. After the redemption of the senior tranche in full, the residual amount will be paid to the equity tranche.

A CC equivalent to 4.40% of the initial pool principal (Rs. 131.18 crore) also acts as credit enhancement in the transaction. The CC would be in the form of a fixed deposit maintained with a designated bank acceptable to ICRA. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the EIS first, followed by the CC, to meet the shortfall. Excess collections in a month, after meeting the promised PTC payouts as defined in the waterfall mechanism, would be used to top up the CC to the extent of past utilisation.

The rating takes comfort from the well-diversified pool with low obligator concentration. The weighted average seasoning stood at ~14 months with nil overdues as on the pool cut-off date. The initial pool comprises new and used CV (new CV: ~3% and used CV: ~56%), new and used passenger vehicle (new PV: ~5% and used PV: ~28%) and new and used CE (new CE: ~1% and used CE: ~8%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Karnataka, Tamil Nadu and Andhra Pradesh) contributing ~36% to the initial pool principal amount. Nonetheless, ICRA notes the relative uncertainty regarding the follow-on pools, given the replenishment structure in the transaction; however, this will be controlled through the stringent eligibility criteria for the follow-on pools. The performance of the initial pool and the follow-on pools would remain exposed to macro-economic shocks/business disruptions.

Past rated pools: ICRA has rated over 50 pools so far, backed by new & used CV, new & used PV, new & used CE and tractor loans originated by SFL. Overall, the performance of all live pools (which have completed at least two payouts) has remained healthy till the February 2024 payouts with good collections and loss-cum-180+ days past due (dpd) levels of sub-3.0% for all the pools.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts. For the transaction, ICRA has estimated the expected mean shortfall in principal collection during the tenure of the pool at 3.50-4.50% of the initial pool principal, with certain variability around it.

Liquidity position: Superior

The liquidity position for PTC Series A is superior after factoring in the credit enhancement available for meeting the promised payouts to the investor.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded on the occurrence of a trigger event, non-adherence to the key transaction terms and deterioration in the performance of the underlying pool. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of SFL's portfolio till December 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee compliance letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Shriram Finance Limited [SFL; erstwhile Shriram Transport Finance Company Limited (STFC)], incorporated in 1979, is a part of the Shriram Group of companies and an upper layer non-banking financial company. Based on the National Company Law Tribunal order dated November 14, 2022, the operations of Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited (SCL) were merged with STFC, which was rechristened Shriram Finance Limited on November 30, 2022.

SFL enjoys a leadership position in preowned commercial vehicle finance and has a pan-India presence with 3,700+ branches and other offices. As of December 31, 2023, SFL's assets under management (consolidated) stood at Rs. 2.26 lakh crore, comprising commercial vehicle finance (45%), passenger vehicle finance (18%), construction equipment and farm equipment finance (8%), small and medium-sized enterprise lending (10%), personal loans (4%), gold loans (3%) two-wheeler loans (5%) and housing loans (5%; through its subsidiary – Shriram Housing Finance Limited).

Key financial indicators

Particulars	FY2022*	FY2023^	9M FY2024^
	Audited	Audited	Provisional
Total income	19,274	30,508	26,459
Profit after tax	2,721	6,011	5,373
Total managed assets#	1,52,742	2,23,769	2,54,307
Gross stage 3	7.1%	6.0%	5.5%
Capital to risk weighted assets ratio	23.0%	22.6%	21.0%

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore
With the scheme of arrangement and amalgamation of STFC, SCUF and SCL becoming effective, figures for the year ended March 31, 2023 are not comparable with the figures for the year ended March 31, 2022
**For SFL, prior to the merger with SCUF and SCL; ^Consolidated post-merger*
#Total managed assets = Total assets + Impairment allowance + Direct assignment –Goodwill; Managed gearing includes off-book portfolio as debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Mar 28, 2024	-	-	-
Sansar Vehicle Finance Trust Dec 2022	PTC Series A	2,621.02	2,621.02	**Provisional [ICRA]AAA(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate^	Maturity Date*	Amount Rated (Rs. crore)	Rating
Sansar Vehicle Finance Trust Dec 2022	PTC Series A	March 2024	9.30%	September 2030	2,621.02	Provisional [ICRA]AAA(SO)

** Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
^Payable quarterly
Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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